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**ARIZONA CORPORATION COMMISSION**

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May 12, 2005

Chairman Jeff Hatch-Miller  
Commissioner Marc Spitzer  
Commissioner Mike Gleason  
Commissioner Kris Mayes

Re: Palo Verde Utilities Company, LLC: Santa Cruz Water Company, LLC  
Docket Nos. SW-03575A-04-0767 and W-03576A-04-0767

Dear Colleagues:

In his letter dated May 10, 2005, Commissioner Spitzer expressed a desire to modify Decision #67240 to reduce the bond term for both Palo Verde and Santa Cruz. He proposed decreasing the bond term from five years to two.

Commissioner Spitzer stated that he believes the continuation of the bond in Decision #67240 "may have been based upon unsubstantiated hearsay." That may be; nevertheless, the Commission adopted the findings of fact in that Decision. In so doing, the Commission made a determination that those facts exist and that there was sufficient evidence to support them. That is why I believe that an evidentiary hearing is necessary prior to the Commission taking action to modify the bond requirement.

I believe that it is appropriate to re-evaluate whether the bond requirement is indeed in the public interest. I support Commissioner Spitzer's suggestion that the Hearing Division issue a Procedural Order – to establish a discovery and briefing schedule. Through the hearing process all parties will be able to introduce evidence supporting their respective positions. For example, the Companies could refute the facts adopted in Decision #67240 that were the basis for the longer bond term. I also think that it would be appropriate to hear evidence on the conduct of the Companies since the establishment of the bond.

It may be that after all the evidence is weighed, the public interest will require a modification of the bond term, the bond amount, or the exoneration of the bond.

Sincerely,

A handwritten signature in cursive script that reads "William A. Mundell".

William A. Mundell, Commissioner  
Arizona Corporation Commission

cc: Brian McNeil  
Ernest Johnson  
Lyn Farmer  
Docket Control